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Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol31/iss19/1

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GOVERNING FOR IMPACT AND PERFORMANCE
WITHIN SOCIAL ENTREPRENEURIAL VENTURES: THE
MEDIATING ROLE OF ORGANIZATIONAL CAPABILITIES

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ABSTRACT

Social entrepreneurial ventures pursue a double bottom line, i.e., they try to achieve simultaneous social and financial performance. Governance has been shown to be a critical issue for firm performance. However, this issue has been neglected in the SE literature. This exploratory study empirically addresses this gap by proposing a mediational model between governance behaviors (agency and stewardship) and financial performance and social impact. Although showing mixed results about the mediation by organizational capabilities, this study shows that these are good predictors of both financial performance and social impact, and that agents’ opportunistic behaviors negatively influence the development of these organizational capabilities.

INTRODUCTION

Social entrepreneurship can be viewed as the pursuit of a social mission by the use of entrepreneurial strategies (Bacq & Janssen, 2011; Short, Moss, & Lumpkin, 2009; Zahra, Gedajlovic, Neubaum, & Shulman, 2009). At the organizational level, this has led to innovative methods and processes toward the creation of new ventures, or the management of existing ones. In line with Dorado (2006) and Townsend and Hart (2008), we refer to these organizations as “Social Entrepreneurial Ventures” (SEVs) that we define as nonprofit or for-profit forms of organizations using the market to tackle society’s most pressing and intractable problems. Social entrepreneurship research so far has mainly focused on explaining the emergence of these hybrid forms of organizations, describing the social entrepreneurs, or attempting to identify distinguishing characteristics between social and commercial entrepreneurship (e.g., Austin, Stevenson & Wei-Skillern, 2006; Di Domenico, Tracey, & Haugh, 2009), both at the conceptual or exploratory, empirical levels. Despite Battle Anderson’s (2005) call for more efforts to better understand social entrepreneurship from a strategic and organizational approach, little research has focused on the underlying organizational systems that influence economic and social/environmental impact. As suggested but not tested, SEVs’ governance behaviors might assist in resolving the ubiquitous dilemma of balancing the social mission and the need for financial sustainability – a dilemma known as the “double bottom line”. Harjula (2006) demonstrated, for instance, that the tensions in balancing economic and social returns are very concrete for for-profit social entrepreneurs who rely on venture capitalist funding and that addressing this balancing act comes, in part, within the governance systems of these organizations. Moreover, it has been argued that corporate governance is even more important for double bottom line ventures, given that governance is defined as all the mechanisms that guarantee the reach of an organization’s bottom line (Drucker, 1990). While anecdotal evidence suggests that social entrepreneurs use governance to increase their social
impact and financial success, relatively little work has focused empirically on understanding the processes by which social entrepreneurs reach their objectives. Given the unique context of social entrepreneurship, we think that the role of governance in balancing the double bottom line in SEVs is worth exploring.

Furthermore, in the entrepreneurship and family business literature dealing with the issue of governance, Hoopes and Miller (2006) and Miller and Le Breton-Miller (2006) found that an organization’s governance behavior helps to develop organizational capabilities. These, in turn, lead to higher financial performance. In the social entrepreneurship context, Bloom and Smith (2008) found that some organizational capabilities leading to higher social impact are correlated with behaviors of the board of directors, one of the most studied governance mechanism. Therefore, by extending the literature on governance and organizational capabilities in the social entrepreneurship context, this exploratory study intends to address “the strategic and managerial consequences of trying to concurrently satisfy economic and social objectives” (Short et al., 2009).

In line with ongoing discussion on the governance of social ventures, we adopt both agency and stewardship perspectives. In particular, this study addresses the extent to which organizational capabilities mediate the relationships between, on the one hand, social entrepreneurs’ perceptions of their governance behaviors in line with the agency/stewardship predictions, and, on the other hand, social impact as well as financial performance. Our research objective is to examine whether social entrepreneurs’ governance behaviors influence the organizational capabilities that their organizations develop, thereby increasing their financial performance, as well as the social impact they bring to their marketplace. This study also intends to fill a methodological gap in addressing the deplored lack of predictive models in the extant social entrepreneurship literature.

In order to reach this objective, the paper proceeds as follows. Section 1 examines the under researched issue of governance in SEVs by applying the agency and stewardship theoretical lenses. Section 2 introduces the importance of organizational capabilities in SEVs. Section 3 presents our mediational model. Section 4 presents our research methodology and Section 5 discusses our results. Finally, contributions, limitations, as well as implications for theory and practice are discussed.

**Governance in Social Entrepreneurial Ventures: A Path to Balance Double Bottom Line**

SEVs are not a homogeneous group of organizations: they vary in terms of legal forms (nonprofit, for-profit, or hybrid structures), sizes, activity sectors (e.g., health, renewable energy, recycling, employment, housing, education), ownership (concentrated or divided), management (independent management, owner-management), etc. However, SEVs are all characterized by a “double bottom line” (e.g., Alter, 2004; Boschee & McClurg, 2003; Dees, 1998; Flannery & Deiglmeier, 2000; Nicholls & Cho, 2008; Robinson, 2006; Thompson & Doherty, 2006), i.e. they strive simultaneously for the highest social impact on the communities they serve, as well as for sustainable revenue-generating activities. Therefore, the biggest challenge for social entrepreneurs lies in the practical implementation of a promising “social” idea into an operational, plausible, sustainable business model (Guclu, Dees, & Battle Anderson, 2002). Be they for-profit entities explicitly designed to serve a social purpose (e.g., “For-Profit Social Ventures”, in Dees & Battle Anderson, 2003), or nonprofits using an entrepreneurial strategy to fund their social mission, SEVs search for a balance between social value creation to the benefit of the collective interest and financial sustainability. Some have argued that a double bottom line is not unique to SEVs,
and that other types of organizations, even commercial ones, can also pursue several missions and goals. However, a recent exploratory study found that SEVs distinguish themselves from their commercial counterpart by the intention and the dominance of perceived social value creation over economic value creation¹ (Bacq, Hartog, Hoogendoorn, & Lepoutre, 2011). These peculiarities should be taken into account when dealing with governance. Indeed, the double bottom line poses important challenges to the field of social entrepreneurship since it might threaten the success of the SEV in achieving effective governance. As a consequence, governance mechanisms must be created in SEVs to guarantee that the organizational social mission is achieved, while reflecting the interests of the people holding the capital – even if fund providers investing in that kind of venture might have other interests than the sole financial return on investment (Labie, 2005). Therefore, the context of social entrepreneurship provides a particularly interesting setting in which to examine governance. This is the object of the next section.

**Governance in SEVs**

There are many different definitions of governance, varying by discipline (i.e., definitions will vary between management, law or economics) or by context (for-profit/corporate, nonprofit, etc.). In management studies for instance, the definition of corporate governance given by the OECD (2004), as “dealing with the rights and responsibilities of an organization’s board, its management, shareholders and other stakeholders”, has been used extensively (e.g., Bonn & Fisher, 2005: 730). However, in the nonprofit context, this definition does not make sense, since nonprofits do not have “shareholders” per se. Therefore, for the purpose of this study, we define governance as being all the mechanisms that guarantee to reach an organization’s (be it for-profit or nonprofit) bottom line (Drucker, 1990) – i.e., in the case of SEVs, a mix of social and economic objectives.

The importance of governance in social entrepreneurship has been stressed by many authors, arguing that governance is one of the key aspects of SEVs’ success and should therefore deserve further investigation. The issue of governance in SEVs is all the more important since, according to Light (2009: 22), these organizations “may neglect organizational infrastructure, possibly resulting in underinvestment in measurement and governance”. Similarly, Spear, Cornforth, and Aiken (2009: 269) warn that, in the particular case of newly started “social enterprises”, governance arrangements can be disregarded given the entrepreneur’s focus on the successful implementation of his/her business ideas. Since, according to Nicholls (2006) and Townsend and Hart (2008), governance structures in SEVs could be viewed as a way to gain organizational legitimacy, SEVs should really pay attention at their governance systems. In their discussion of the application of market discipline to SEVs, Austin, Stevenson and Wei-Skillern (2006: 9-10) stress that “funders and board members focus on the organization’s social mission and fail to emphasize accountability and high performance for the organization”. They contend that the goals of the different constituencies of a SEV, from the social entrepreneur to board members, vary widely and therefore need to be monitored. Despite the acknowledged importance of governance in SEVs, and arguments saying that governance dynamics in SEVs are likely to be distinct from governance behaviors found in private, public or associative sectors (Jegers, 2010; Low, 2006), to date, the emerging literature on the topic has tended to be overly prescriptive (Cornforth, 2004), therefore limiting the number of empirical research to a few exceptions. Sharir and Lerner (2006) found weak salience, among SEVs, of the involvement of board members in planning, decision-making, personal financial investment, and expanding the social network, suggesting that “the functioning of board members was problematic” (Sharir & Lerner, 2006: 10). The study conducted by Spear et al. (2009) confirms that one of the most interesting governance challenges facing social enterprises lies in balancing social and economic goals, while managing entrepreneurial and financial risk.
Based on agency theory’s predictions, Spear et al. (2009) stress that social enterprises’ boards will have to maintain a certain level of power to control management. One of the common governance challenges will therefore include managing interdependencies between boards and management, although, as the authors insist on, they should have clearly different roles. In addition to this agency research, stewardship has been argued to be part of social entrepreneurs’ behavior by several scholars (Mair & Marti, 2006; Tan et al., 2005). Stewardship theory and collective activity have also been the object of discussion in several case studies of social enterprises in the UK (Low, 2006; Mason, Kirkbride, & Bryde, 2007; Shaw & Carter, 2007). Finally, let us note some empirical applications of the stakeholder approach to the field of social entrepreneurship (Campi, Defourny, & Grégoire, 2006; Vidal, 2005). As Low (2006) argues, the logic that leads to consider SEVs as organizational forms distinct from “traditional” for-profit/nonprofit enterprises is based on the tensions between social and economic objectives, therefore suggesting that governance structures including multiple stakeholders will need to co-exist with the influence of the social entrepreneurs as the individual driving forces behind their enterprise.

Among the different approaches of governance – agency, stewardship, stakeholder, democratic, resource-dependency and managerial hegemony being the most studied for the management of corporations, nonprofits, entrepreneurial or family firms – we chose to focus on agency and stewardship theories, as they offer complementary views on SEVs, at least at two levels. Indeed, both agency and stewardship behaviors have been identified in the literature as leading to different outcomes. Therefore, stewardship-oriented behaviors may be in tension with the financial duties of starting and managing a SEV (Short et al., 2009).

Agency theory adopts an economic approach to governance and depicts managers as individualistic and opportunistic (Jensen & Meckling, 1976). It analyzes the relationships that take place between a principal and an agent, who receives the responsibility of a specific set of tasks. The assumption underlying agency theory is that the principal and the agent are both self-interested and have divergent interests. Given information asymmetry between the two parties, or the impossibility and cost of writing complete contracts, agency problems (e.g., adverse selection, moral hazard) arise. In order to make sure that the agent’s interests are aligned with his/her own, the principal might need to adopt some monitoring or incentive actions. The costs to set up these actions are referred in the literature as the “agency costs” (Fama & Jensen, 1983). Consequently, close alignment of interests lowers agency costs, whereas misalignment increases these costs. In contrast, the sociological stewardship theory depicts managers as collectivist, trustworthy and behaving in accordance with organizational objectives. As such, it assumes that senior decision-makers are intrinsically motivated not only by self-interest, but also by altruism and/or generosity (Davis, Schoorman, & Donaldson, 1997). When it comes to theory building in the context of social entrepreneurship, the assumptions behind agency and stewardship theories should not be forgotten (Zahra, 2007). Therefore, in the next section, we detail the rationales underlying the two theories and discuss their application to the context of social entrepreneurship.

Agency and Stewardship Rationales in SEVs

Depending on the theoretical assumptions, different decisions and behaviors made at the organizational level lead to different implications in terms of agency costs or stewardship attitudes, which, in turn, have an influence on the organization’s success. Success in the case of SEVs is a multidimensional concept that includes both social impact and financial performance. We define social impact as an organization’s achievements to address and resolve a particular social problem, compared to its competitors. In contrast, financial performance refers to the importance
of performance for the SEV, as well as the social entrepreneur’s level of satisfaction with the financial performance recently achieved.

Given their double bottom line, agency issues are likely to be more complex in SEVs. In their case study analysis, Tracey and Jarvis (2007) found that the double bottom line in SEVs means that goal asymmetry is even more likely to characterize these organizations than traditional businesses. This goal incongruence might in turn require the principals to pay more attention at monitoring their agents’ actions and at designing appropriate incentives structures that lead them to adopt a balance between social and economic objectives. Similarly, recent research on family business management asserts that the special nature of family firms creates unique agency problems, given distinctive monitoring and disciplinary challenges (e.g., Anderson & Reeb, 2003; Chua, Chrisman, & Sharma, 2003; Schulze, Lubatkin, & Dino, 2003; Villalonga & Amit, 2006). Applying the agency perspective to social entrepreneurship, the owner(s) of the SEV might be seen as the principal, whose interests lie in the realization of the double bottom line. Conversely, the senior decision-maker(s) of the SEV, including the board of directors, the CEO, the CFO, could be considered as the agent(s). Therefore, because of multiple objectives, agency problems related to divergent interests might occur between the owners and the senior decision-makers. For instance, under financial pressures to reach a sustainable initiative, they may not act in the best interests of the social mission, but in an opportunistic way in order to address short term economic needs. Indeed, the need to become financially sustainable might take the advantage over the social mission of the venture and therefore lead to agency problems that derive from interests’ misalignment between the agent’s short-termism and the principal’s long-term orientation. In these lines, Tosi, Brownlee, Silva, and Katz (2003) found that decision-makers under agency controls chose to invest more in profit maximization strategies than individuals under stewardship controls. Therefore, we formulate the following hypothesis:

Hypothesis 1: Agency-oriented governance behaviors lead to higher financial performance than stewardship-oriented governance behaviors.

Stewardship theory depicts the behaviors of senior decision-makers, called stewards, as being driven by collective interests, self-actualization and altruism (Donaldson, 1990; Zahra, 2003). This altruistic motivation leads them to adopt an “involvement-oriented management philosophy” and therefore to act toward organizational, rather than personal, objectives (Short et al., 2009: 176). As a consequence, in contrast to agency theory predictions, stewards are more likely to orient their actions toward the long run rather than favoring short-term decisions (Davis et al., 1997). Long-term orientation can be defined as “the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period” (Lumpkin, Brigham, & Moss, 2010). In the case of social entrepreneurship, this implies that stewardship-oriented SEVs’ CEOs will be more prone to achieve social impact – understood as a long-term objective – as opposed to short-term profit-maximization objectives. Indeed, the assumed socio-emotional attachment to the social mission might motivate both principal and agent to cultivate the long-run interests and resources of the firm (versus the temptation to pursue short-term gains). Thus, we formulate the following hypothesis:

Hypothesis 2: Stewardship-oriented governance behaviors lead to higher social impact than agency-oriented governance behaviors.
On the other hand, scaling social impact has been shown to depend on people and policies within the organization’s boundaries (Bradach, 2003; LaFrance et al., 2006; Sherman, 2006). As such, Bloom & Chatterji (2009) found that social impact is driven by a series of organizational capabilities relative to domains such as staffing, networking, etc. In the next section, we further develop their arguments for organizational capabilities as drivers of social impact and financial performance.

**Organizational Capabilities, Social Impact & Financial Performance**

The resource-based view (RBV) of the firm has been applied to the context of social entrepreneurship, thereby viewing SEVs as “competitive organizations whose ability to attain their goals and create social value is impacted by being able to combine and convert acquired resources” (Meyskens et al., 2010: 663). According to this theoretical framework, the firm achieves a sustainable competitive advantage through unique combinations of resources (Barney, 1991). Those “unique combinations of resources leading to competition” are usually referred to as “capabilities”. Those are expected to improve the firm’s efficiency and effectiveness (Barney, 1991). A positive relationship between capabilities and performance has been demonstrated in various studies (e.g., Abell, Felin, & Foss, 2008; Teece, 2007; Wu, 2006; Zott, 2003). Therefore, we formulate the hypothesis:

**Hypothesis 3a:** Organizational capabilities are positively related to financial performance.

In the present study, we examine seven categories of capabilities that matter most for driving successful scaling of social impact (Bloom & Chatterji, 2009), known under the acronym “SCALERS”. These include the ability of the SEV to fill its labor needs with skilled people (Staffing), its effectiveness in persuading key stakeholders of the value of its theory of change (Communicating), its networking abilities in creating partnerships, coalitions, joint ventures, etc. that help to reach its social mission (Alliance-Building), the SEV’s advocacy power to influence government actions in its favor (Lobbying), its ability to generate positive revenues (Earnings-Generation), the replicability of its programs and initiatives to other regions of the world or to other variant of the social problem (Replicating) and, finally, its ability to create incentives that encourage people or institutions to pursue private interests while also serving the public good (Stimulating Market Forces). Bloom and Smith (2008) have shown that the seven SCALERS organizational capabilities are important predictors of scaling a SEV’s social impact on the communities and markets it serves. Moreover, we argue that SEVs’ distinctive organizational capabilities will also have an impact on their financial performance, cornerstone of their sustainability. Hence, we propose the following hypothesis:

**Hypothesis 3b:** Organizational capabilities are positively related to social impact.

**Governance, Capabilities and Double Bottom Line Success**

**Governance and organizational capabilities**

Although RBV provides insights into how organizational capabilities generate value, others have focused their attention on the link between governance and capabilities. Among recent research, Lazonick and O’Sullivan (2002) highlighted that governance influences the way managers develop internal routines, processes, and systems. Carney (2005) linked a governance approach with RBV, arguing that family firms derive a competitive advantage from their system of governance (including incentives, authority patterns, norms of legitimation) that, in turn, generates
organizational propensities to create competitive advantage. Hoopes and Miller (2006) showed that ownership concentration and owner preferences give rise to distinctive resources and capabilities. According to their model, higher ownership concentration reduces agency costs, which leads to resource surplus and a preference towards long-term investment; these capabilities, in the end, create unique competitive opportunities. Miller and Le Breton-Miller (2006) found that family governance choices (e.g., level and mode of family ownership and control, family leadership as CEO) feed distinctive capabilities. They argue that stewardship attitudes – prevalent among family-controlled businesses in which leaders are either family members or emotionally linked to the family (Miller & Le Breton-Miller 2006) – generate far-sighted contributions that feed distinctive capabilities. As we argued in the previous section, such behaviors could also be found in SEVs where managers are also emotionally linked, not to a family, but to the social mission and, as a consequence, yield distinctive capabilities. In the context of social entrepreneurship precisely, Bloom and Smith (2008) found that the “attitude” of the board is an important antecedent to the SCALERS. Hence, given the underlying assumptions of agency and stewardship theories and previous research findings, we formulate the following hypotheses:

**Hypothesis 4:** Agency-oriented governance behaviors positively influence organizational capabilities.

**Hypothesis 5:** Stewardship-oriented governance behaviors positively influence organizational capabilities.

**Mediational Model**

Since we have linked capabilities to social impact and financial performance, and governance behaviors to organizational capabilities, we have developed a model (see Figure 1) that examines the mediating role of capabilities between SEVs’ governance and their double bottom line. That is, capabilities facilitate the ways in which SEVs adopt effective governance behaviors to increase their success on both social and financial fronts. Some scholars have investigated the link between governance, capabilities and performance. Arguing that the relationship between governance and performance is too simple, Miller and Le Breton-Miller (2006) suggest that a mediating role of organizational capabilities should be considered. Their study explains the drivers of performance of family-controlled businesses, also using precepts from agency and stewardship theory. Carney and Gedajlovic (2003) showed that organizational value-creating/destroying attributes are embedded in the firm’s system of corporate governance that they defined as family control rights over a firm’s assets. These control rights generate organizational propensities that lead to competitive advantage. Moreover, the mediating role of capabilities in the governance-performance relationship has been supported in the case of social entrepreneurship by Bloom and Smith (2008) who found evidence of a significant positive relationship between the board’s attitude and the organizational capabilities enhancing social impact in their exploratory empirical study surveying 601 social enterprises. In line with their results, we develop two final hypotheses, in which organizational capabilities mediate the relationship between governance behaviors and both social impact and financial performance. Our last two hypotheses read as follows:

**Hypothesis 6:** Organizational capabilities mediate the positive relationship between agency-oriented governance behaviors and financial performance.

**Hypothesis 7:** Organizational capabilities mediate the positive relationship between stewardship-oriented governance behaviors and social impact.
**Methodology**

**Data Collection**

To investigate the proposed seven hypotheses and model, we surveyed senior decision-makers of SEVs (e.g., CEO, CFO, CIO), to whom we further refer as “social entrepreneurs.” Social entrepreneurs included in the database serve a number of sectors in the US, including education, environment, mental health, hunger, arts and culture, and social capital investing. All of the information was gathered from the social entrepreneurs over a six-month period utilizing an online survey. This survey was sent to about 1,000 social entrepreneurs; a response rate of more than 18% generated 184 questionnaires.

**Measurement Scales**

*Agency.* To measure agency, we used a four-item scale developed by Frankforter, Davis, Vollrath and Hill (2007), further used by Davis, Allen & Hayes (2010). Respondents indicated the degree to which they perceived their leadership behavior as self-serving on a 5-point Likert scale. The metric for empirical testing was formed by the mean of the four scale items. Cronbach’s alpha of .65, thereby meeting the threshold of .60 suggested by several researchers (e.g., Atuahene-Gima & Evangelista, 2000).

*Stewardship.* To measure stewardship, we used a four-item Likert scale developed by Davis, Frankforter, Vollrath and Hill (2007). Respondents were asked to indicate the extent to which they agreed (1=strongly disagree, 5=strongly agree) with statements regarding the level of stewardship behavior they perceived in their leadership. Cronbach’s alpha is .81.

*Organizational Capabilities.* Seven organizational capabilities were measured by using the SCALERS measurement scales developed by Bloom and Smith (2008). Respondents were asked the extent to which they agreed (1=strongly disagree, 5=strongly agree). Cronbach’s alphas were: Staffing (.65), Communicating (.70), Alliance-building (.69), Lobbying (.72), Earnings-generation (.58), Replicating (.76), and Stimulating market forces (.72).

We then aggregated the scales into one “SCALERS” scale by calculating the mean of the seven organizational capabilities. We also performed a confirmatory factor analyses (CFA), using the covariance matrix in Lisrel (Joreskog & Sorbom, 1996). Model parameters were estimated using the maximum likelihood method. The chi-square score for the 1-factor model was significant, ($x^2(14, N = 131) = 29.71, p < .001$). The goodness of fit index (GFI) was .94 and, more importantly, the two incremental fit indexes, the comparative fit index (CFI) and the incremental fit index (IFI) were .91. These indexes are independent of the size of the sample and degrees of freedom (Marsh, Balla, & McDonald, 1988). According to Anderson and Gerbing (1988) and Hoyle (1995), a value of .90 or higher on the CFI and IFI indicates an adequate fit of model to data.

*Social Impact.* Social impact was also measured based on the work by Bloom and Smith (2008). Also in comparison to organizations tackling similar social problems, respondents were asked the extent to which they agreed, on a 5-point Likert scale, with four statements, such as “we have made significant progress in alleviating the problem”, or “we have greatly expanded the number of individuals we serve”. Cronbach’s alpha for this scale is .76.

*Financial Performance.* Financial performance was measured using a composite indicator of performance importance and satisfaction that were adapted from Iakovleva (2005). Respondents
were asked to indicate the degree of importance (1=very low importance, 7=very high importance) their SEV attached to six different items over the past three years: sales level, sales growth, profitability, net profit, gross profit and their ability to fund enterprise growth from profits. They were also asked about their level of satisfaction (1=highly dissatisfied, 7=highly satisfied) on the same six indicators over the same period of time. The Composite performance index was constructed by rescaling importance questions from a “1 to 7” to a “-3 to 3” scale, and then by multiplying those scores with satisfaction. Cronbach's alpha for performance was .85.

Control variables. Control variables (i.e., profit status, age and firm size in terms of number of employees and volunteers) that can have an influence on a SEV’s social impact and financial performance were chosen.

Data Analysis

In order to test for hypotheses 1 to 5, we used multiple linear regressions. In order to test for mediation, we used Baron and Kenny’s (1986) mediated regression approach. In this mediational approach, three equations are estimated. First, the mediator (organizational capabilities) is regressed on the independent variables (IVs), i.e. agency- and stewardship-oriented behaviors (corresponding to hypotheses 4 and 5, respectively). Second, the dependent variables (DVs, i.e. financial performance and social impact) are regressed on the IVs (see hypotheses 1 and 2). Since we have two DVs, we had to run two sets of regressions. Third, the DVs are regressed simultaneously on both the IVs and mediational variables (hypotheses 6 and 7). The results of these tests are detailed in the next section.

Results

The means, standard deviations, and zero-order correlations for our constructs are reported in Table 1. A number of zero-order correlations between control and dependent variables were significant. For example, being a for-profit form of SEV is positively correlated with financial performance but negatively correlated with social impact. However, the higher the number of full-time employees in a SEV, the higher its social impact.

Table 2 displays the approach and results to test the relationships between agency-oriented governance behaviors, organizational capabilities, and financial performance, including our control variables.

We proceeded the same way to test the relationships between stewardship-oriented governance behaviors, organizational capabilities, and social impact. Results are displayed in Table 3.

Discussion

The statistical analyses only enabled us to find partial support for our hypotheses. More precisely, hypotheses 3b and 4 were supported at the .05 level, whereas hypothesis 3a was verified at the .10 level of significance. That is, we found that organizational capabilities are positively related to financial performance and social impact. So, beyond the confirmation of Bloom and Smith’s (2008) finding that organizational capabilities (SCALERS) indeed are important drivers to successful scaling of social impact, it seems that, in line with the RBV arguments, organizational capabilities also lead to higher financial performance. Indeed, in the management literature, abilities to attract skilled workforce, find partners, convince decision-makers, generate earnings,
have all been showed to enhance financial performance. As far as hypothesis 4 is concerned, we found that agency-oriented governance behaviors negatively influence organizational capabilities. However, we were not able to find support for the hypothesis that stewardship-oriented governance behaviors positively influence organizational capabilities (hypothesis 5). This result suggests that stewardship behaviors, such as emotional commitment to the SEV’s social mission, are not what influence key organizational capabilities that will lead the organization to success. More importantly, we did not find confirmation that agency-oriented governance behaviors lead to higher financial performance than stewardship-oriented governance behaviors (hypothesis 1), on the one hand, and that stewardship-oriented governance behaviors lead to higher social impact than agency-oriented governance behaviors (hypothesis 2), on the other hand. In both cases, we were not able to confirm our intuitions. Although these were based on insights generated by the extant literature on social entrepreneurship, one should not forget that this field is still under development. Indeed, the use of agency theory precepts in the social entrepreneurship context is new and probably deserves closer attention on how agency relationships take place in organizations pursuing a double bottom line. Overall, the general intuition that agency cost minimization behaviors lead to higher financial results, whereas stewardship properly depicts the behaviors of social entrepreneurs who, since being socially driven, are altruistic and trust-worthy, still needs to be demonstrated. Finally, coming to mediation, we could not find support for our hypothesis that the relationships between agency/stewardship governance and financial performance/social impact are facilitated by the development of a series of organizational capabilities. Since we did not find significant relationships between our IVs and DVs, the second condition of Baron and Kenny’s (1986) approach was not met, thereby preventing us from concluding on mediation.

**STUDY LIMITATIONS & FUTURE RESEARCH AVENUES**

This study is not without limitations. First, the analyses were conducted on a relatively small sample, although we respect the rule-of-thumb of 10 observations per variable. In order to increase the validity of our analyses, we plan to collect more data. Second, relationships between the different constructs included common method variance since each of the constructs was measured relying on one source, i.e., the social entrepreneur. This bias could be overcome by the inclusion of alternative perspectives from the SEV’s multiple stakeholders (employees, partnering organizations, beneficiaries, etc.). However, others have argued that the entrepreneurs’ opinion is the one that matters most since they know their business the best (Covin, 1991; Hambrick, 1981), these types of firms being often “personified” by the entrepreneur. Third, yet the hypothesized model and relationships suggest causal direction, our study was cross-sectional. Future research should therefore examine these relationships from a longitudinal perspective in order to establish causality. This would provide additional perspectives of how governance and the development of organizational capabilities occur throughout the life cycle of the SEV. Along with these methodological refinements, our hypotheses would also certainly deserve deeper argumentation, as well as confrontation with results present in the extant literature.

**CONCLUSION**

The objective of this paper was to examine whether social entrepreneurs’ governance behaviors influence the capabilities that their organizations develop, thereby increasing both their financial performance and the social impact. We developed a series of hypotheses regarding the relationships between three sets of constructs (i.e., agency- and stewardship-oriented governance
behaviors, organizational capabilities known as SCALERS, and financial and social performance) and argued for a mediational model. This study also intended to fill a methodological gap in addressing the deplored lack of predictive models in the extant social entrepreneurship literature. Whereas we found partial support for our hypotheses, we were not able to confirm the mediational role played by organizational capabilities between governance and performance. More specifically, we found that organizational capabilities are good predictors of both financial performance and social impact, and that agents' opportunistic behaviors negatively influence the development of these organizational capabilities. These mixed results and the study limitations encourage further theoretical and methodological developments of the model.

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NOTES
1. As such, SEVs are distinct from Corporate Social Responsibility (CSR) programs (e.g., Carroll, 2001; Donaldson & Preston, 1995; Moir, 2001) and commercial entrepreneurial firms. On the one hand, the social entrepreneur sets up a business in order to pursue an explicit social mission, whereas the "traditional" entrepreneur is often more motivated by goals like independence or self-fulfillment, if not profit (Janssen & Surlamont, 2009). These objectives can be more easily aligned with a financial bottom line than a social mission. On the other hand, the key difference between CSR and social entrepreneurship lies in the fact that the social mission is central for the organizations of the latter, whereas it is secondary in the former perspective.
2. Besides these theories, different governance "mechanisms" can also be named, of which the board of directors has been the most studied in the literature. Charreux (1997) introduced an interesting distinction between "intentional" mechanisms, such as the board of directors or the general assembly, and "spontaneous" mechanisms, referring to the corporate culture, managers' cross-control, or the job market. The latter seem to play a major role in start-ups whereas intentional mechanisms are more and more adopted as the firm grows.

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* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
Table 2. Mediated Regression on Financial Performance

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**Mediational Approach†**

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Note for Tables 2 and 3. * Significant at the .05 level. ° Significant at the .10 level. † The beta weights represent the values in the last step of the meditational analysis.

Table 3. Mediated Regression on Social Impact

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**Mediational Approach†**

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Figure 1. Proposed Research Model